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2004-12-03

## PRESS RELEASE

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### **Economic projections for Belgium - Autumn 2004**

(Article published in the Economic Review, 4<sup>th</sup> quarter 2004) [www.nbb.be](http://www.nbb.be)

Coinciding with the publication in the ECB bulletin of new projections for the euro area, this article gives a brief account of the results for the Belgian economy. The results were compiled by the National Bank of Belgium as part of the Eurosystem's six-monthly exercise, using the same methods and procedures as the forecasts published in the spring in the Economic Review for the 2<sup>nd</sup> quarter of 2004. Since then, a further rise in oil prices has occurred. In Belgium, GDP growth has been stronger than expected in the past few quarters. Furthermore, the new projections take account of the government budgets available for 2005. The projections are based on the information available as at 19 November 2004.

The Eurosystem projections allow for a slight slowdown in the global economy, following the record growth seen in 2004, with trade remaining buoyant. Oil prices are supposed to decline gradually, while exchange rates are maintained at their mid-November level, namely 1.29 dollars to the euro. In this context, following an acceleration in 2004, GDP growth in the euro area is expected to speed up further in 2005, bolstered to a greater extent by domestic demand. In the short term, inflation is likely to be influenced by the high level of oil prices, but is expected to slacken during 2005.

The strengthening of activity in Belgium which began in mid 2003 continued unabated up to the third quarter of 2004 at a pace which was slightly more sustained than expected and also outstripped that achieved in the euro area. GDP growth is expected to continue at a robust pace, although below its recent level. Overall, growth is set to rise from 1.3 p.c. in 2003 to 2.7 p.c. in 2004, a 0.4 point revision compared to the spring forecast. It is expected to drop back to 2.5 p.c. in 2005.

With activity picking up, domestic employment should begin expanding again during 2004. The estimates for employment growth are 0.4 and 1.1 p.c. respectively for 2004 and 2005, i.e. an overall net job creation totaling around 62,000 jobs by the end of those two years; this should amply offset the job losses recorded in 2002-2003. However, allowing for the expansion of the labour force, the harmonised unemployment rate is expected to remain steady at an average of 7.8 p.c. in 2004 and 2005, against 8 p.c. in 2003.

While the marked strengthening of activity at the end of 2003 had been driven by accelerating exports and substantial stock building, the composition of economic growth is likely to be more balanced in 2004 and 2005, supported in particular by the expansion of employment and investment. Higher employment will be the dominant factor boosting household purchasing power in 2005. Thus, private consumption is expected to grow steadily by 2.2 p.c. in 2004 and 2005, a rate comparable to the 2003 figure, but this growth will be due mainly to the strengthening purchasing power, as the savings ratio is expected to remain stable at 14.2 p.c. of disposable income, after a combined 2 point fall during the preceding two years. Business investment seemed to show signs of a fragile recovery at the beginning of 2004. It should accelerate, supported mainly by the steady growth of both demand and profitability. According to the Eurosystem assumptions, Belgium should see external demand increase at a sustained rate in 2004 and 2005. Real export growth is therefore expected to speed up, rising from 1.7 p.c. in 2003 to 3.8 p.c. in 2004 and 5.4 p.c. in 2005, as the effects on competitiveness of the euro's appreciation ebb away.

The predicted movements in inflation in 2004 and 2005 and the revisions since the spring are mainly a reflection of the movement in crude oil prices. Overall, measured by the harmonised index of consumer prices (HICP), inflation is expected to average 1.9 p.c. in 2004 and 2.2 p.c. in 2005, 0.1 and 0.5 points respectively above the spring projections. Leaving aside changes in mainly administrative or volatile prices, the underlying inflation rate should average 1.5 p.c. in 2004 and 1.4 p.c. in 2005, against 2 p.c. in 2003. Apart from the indirect effects which higher commodity prices would exert on the selling prices of processed products or certain services, inflationary pressure is likely to remain modest, where both imports and domestic costs are concerned, at least if there are no second-round effects via wages in Belgium and the euro area.

As in the two preceding years, the developments in unit labour costs in the private sector are expected to remain modest in 2004 and 2005. Apart from the strong productivity growth in 2004, a movement usually seen at the beginning of an activity acceleration phase, the relatively small increases in hourly labour costs of 2.5 p.c. per annum for 2003 to 2005 will be a contributory factor here. The rise in hourly labour costs assumed for 2005 - i.e. 2.3 p.c. - corresponds to a technical hypothesis based on the average increase expected in the three neighboring countries, and therefore does not in any way anticipate the conclusions of the current round of pay talks between social partners.

In this exercise, the projections for public finances take account of the sufficiently outlined measures announced for the 2005 budgets. On the other hand, they do not anticipate any supplementary measures which might still be taken. The budget balance is expected to revert from a surplus of 0.3 p.c. of GDP in 2003 to a deficit of 0.3 p.c. of GDP in 2004 and 0.4 p.c. in 2005. In 2003, the balance had been favourably influenced by non-recurring factors whose impact will fade away in 2004 and 2005. For 2004, the new forecast balance is comparable to the spring projections, as the upward and downward revisions in the various components of revenue and expenditure cancel one another out. The deficit predicted for 2005 was cut from 1 p.c. in the spring to 0.4 p.c. in the new projections, in view of the partly structural, partly one-off consolidation measures adopted in the budget.

Apart from a slightly less favourable macroeconomic environment assumed by the Bank's projections, the difference in relation to the balanced budget announced by the government is attributable to the fact that any proceeds from the harmonisation of taxes on savings in the EU had to be disregarded - owing to the continuing uncertainty over the entry into force of the framework legislation and over its immediate effect on revenues - and to the fact that the overspending on health recorded in 2004 has only been partially corrected.

The consolidated gross debt of general government is expected to fall from 100 p.c. of GDP in 2003 to 95.3 p.c. in 2005. The debt reduction which began in 1994 will thus continue, although at a slower pace in 2005, owing to the impact of the restructuring of Belgian Railways, since the new entity, which will take over the major part of the debts and property rights relating to the infrastructure of the railway company, is more than likely to be treated as part of the general government sector in the national accounts.

**Projections for the Belgian economy : summary of the main results**

(percentage changes compared to the previous year, unless otherwise stated)

	2001	2002	2003	2004 e	2005 e
<b>GROWTH</b> (calendar adjusted data)					
GDP at 2000 prices	0.9	0.9	1.3	2.7	2.5
Contributions to growth:					
Domestic expenditure, excluding change in stocks	1.1	-0.1	1.6	2.6	2.5
Net exports of goods and services	0.6	0.3	-0.3	-0.4	0.1
Change in stocks	-0.9	0.7	-0.1	0.5	-0.1
<b>PRICES AND COSTS</b>					
Harmonised index of consumer prices	2.4	1.6	1.5	1.9	2.2
Health index	2.7	1.8	1.5	1.6	2.0
GDP deflator	1.8	1.8	2.0	2.0	2.2
Terms of trade	0.1	1.0	-0.1	-0.5	0.1
Unit labour costs in the private sector	4.8	1.7	1.0	-0.1	1.1
Hourly labour costs in the private sector	3.9	4.2	2.7	2.6	2.3 <sup>1</sup>
Hourly productivity in the private sector	-0.9	2.4	1.6	2.7	1.2
<b>LABOUR MARKET</b>					
Domestic employment (average annual change, thousands of units)	60.5	-12.3	2.3	17.2	45.1
Harmonised unemployment rate (p.c. of labour force)	6.7	7.3	8.0	7.8	7.8
<b>INCOMES</b>					
Real disposable income of individuals	2.7	0.1	1.1	0.9	1.8
Savings ratio of individuals (p.c. of disposable income)	16.3	16.6	15.5	14.3	14.2
<b>PUBLIC FINANCES</b>					
Primary balance (p.c. of GDP)	7.2	6.1	5.7	4.6	4.2
General government financing requirement (-) or capacity (p.c. of GDP)	0.6	0.1	0.3	-0.3	-0.4
Public debt (p.c. of GDP)	108.0	105.4	100.0	96.1	95.3
<b>CURRENT ACCOUNT</b> (p.c. of GDP according to balance of payments)					
	3.9	5.7	4.2	3.9	3.6

Sources: EC, NAI, NSI, NBB.

<sup>1</sup> Technical hypothesis based on the average movement in labour costs expected in the three neighbouring countries.